

OPEN MEETING AGENDA ITEM

Jeff Daniels
Tonto Village
173 S. Blackfc
Payson, AZ 85541



Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, AZ 85541

RE: Docket # W-1580A-13-0255

March 4, 2014

Arizona Corporation Commission

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Commissioners,

We are writing to respectfully request the Commissioners approve the Company requested pro forma rate structure rather than Staff recommendations for the reasons mentioned below. The Commission Staff has done an exceptional job at working with us and answering all questions in a professional manner. This has not been our experience in past rate applications for our other companies.

We purchased (My Wife and I) the Stock of this Company in April of 2010. There has not been a rate application done for this Company since 2003, approved in 2005. Although we have made our best attempt to show all Staff requested expenses since the last Rate application, not all records were available from the previous owners and we know they are insufficient compared to actual expenses. This company has been subsidized by its owners for many, many years and this is unacceptable. Any Company should be able to support itself operationally, be viable and provide a reasonable Return On Investment (ROI) to its owners and this is all we are requesting.

Please note that all of the company operations during the test year and many years prior were performed at little to no additional expense to the company. We perform all repairs and company operations ourselves and do not charge the company appropriately as it usually can not afford to pay fair market value for the work involved. The company needs to have the ability to hire outside industry professionals for many of its operations.

Additionally, with usage rates being significantly higher, the new rate structure can not be based on previous years' water usages. With the higher rates, there will be significant water conservation and the company will never see the projected revenues. We requested that Staff take this into consideration and no changes were made. The Commission will consider a Staff recommended revenue amount that does not reflect reality. We were told by Staff that if there is reduced usage, as we have projected, and the Company does not reach the proposed revenues, then we should consider submitting another rate application in a few years. The Company cannot afford to continue losing money for a few more years. The company is in need of significant improvements now.

We have acquired a \$10,000 technical assistance grant from WIFA but we are having difficulty finding an engineer that can perform the scope of work needed to acquire a WIFA loan, for the amount granted. As a side note, we have been working with a \$15,000 technical assistance WIFA grant to acquire a loan for one of our other companies that has been ongoing for over 5 years to no avail.

Below are some of our objections to the Staff Report:

- Page 2, Paragraph 3 mentions that the CC&N covers 81 square miles. According to our maps which are not detailed with mileage show a much smaller area, our estimate is the CC&N covers about 3 square miles
- Page 2, Paragraph 6 mentions well site #1, it is actually recorded by Gila County as Well Site #2. Well site #1 was not included in the purchase of the company.
- Page 2, Paragraph 7 mentions Well Site #2, it is actually Well Site #3. Staff understates the problems with well site #3. The Well Site was unreliable electrically, required a new concrete well pad(per ADEQ), required a new Flow meter, had several areas that were susceptible to freezing, an outdated structure, and was poorly designed in its layout considering that the property was privately owned and should respectfully serve the property owners better. There was no possible way, with the financial situation of this Company, this could be done in "a few weeks".
- Page 4, Paragraph 12-15. We have reviewed and discussed this Best Management Practices (BMP) recommendation with Mike Thompson (Staff) and have opposed it as an unfunded mandate.
- Page 4, Paragraph 17. We mentioned several reasons for a rate increase beyond an increase in operating expenses.
- The rates and charges recommended by staff are not consistent with the rates and charges used by any local water Company. We own 2 other similar companies located within 20 miles of this system. The Commission approved rates for those Companies, those rates are what we used to base the requested rates for this company, as expenses and operating costs are similar. Christopher Creek and Gardner Water have an \$18.80 base rate and a tier 1 usage rate of \$3.05, per thousand gallons. We operate 5 other companies in this area. Some are Homeowners association owned but for privately owned examples, Kohls Ranch has a base rate of \$24.00, and \$4.27 for tier 1. Tonto Creek Estates has a base rate of \$24.60, and \$4.27 for tier 1. Beaver Valley has a base rate of \$22.25, and \$3.50 for tier 1. Additionally, these Companies own at least the simplest of repair equipment and supplies such as shovels, wrenches, a stock of supplies, a computer & printer, etc... Tonto Village does not, we use our personal property. The Company requested rates are well below these other local and similar Company rates.

Additionally, many of the rate structure line items do not reflect reality. An example is the \$10 meter re-read rate. Tonto Village is 16 miles (32 miles round trip) from our office, our personal vehicle used for the Company gets 11-12 MPG, so that is 3 gallons of gas. Gas is presently \$3.31 per gallon. That is \$9.93 for fuel to simply drive to and from the site. It takes about an hour, including drive time to do a re-read so \$0.07 payment for the time involved, this is another financial loss to the Company.

- Page 6, paragraph 23. This company has existed with an operating income of \$32, and a rate of return of 0.06% for many years, this has lead to a substantial need for improved operations well beyond day-to-day requirements. We need a substantial increase to improve the past deficiencies and continue with a proper level of service.
- Page 6, paragraph 24. As a additional fact, further verifying the previous note, according to Staff, the Company showed an operating loss of \$16,915 during the test year (TY) of 2011. No Company can continue to hemorrhage money in this manner and stay solvent.

- Page 6, paragraph 25. Staff recommendations of an operating income of \$7,629, again does not consider that the company does not own any equipment or stock. To be viable this Company needs to purchase the required supplies and equipment to function properly.
- Page 7, paragraph 26-27. We used the previous rate application (Decision No.68066) and NARUC (Commission required) depreciation rates to calculate OCRB and accumulated depreciation. If Staff has different figures we would appreciate them providing those figures to us.
- Page 10, paragraph 43. The Company does object to Staff's recommended rate design for the reasons mentioned in this letter.
- Page 10, paragraph 44-45. As mentioned above, any service call to this Company requires a fuel requirement of about \$10 and at least 1 hour of service time (min. \$15), plus office time. We feel our suggested rates are appropriate.
- Page 11, paragraph 50-51. The Company is working to satisfy all Property Tax deficiencies. The Company has always met all Sales tax requirements and has requested a certification of compliance from Arizona Department of Revenue (ADOR) without a response. We will provide one as soon as ADOR responds.

Thank You,

Jeff Daniels

President, Tonto Village Water Co., INC